

Restructuring... and a chance to generate jobs

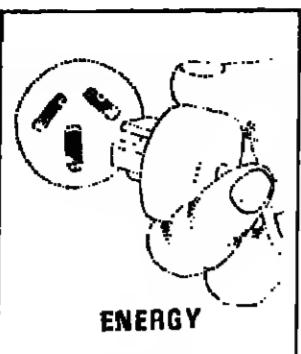
By John Peet

THE energy crisis is accepted as being probably the largest single problem affecting the future prosperity of New Zealand. But actions proposed, for example, in "Goals and Guidelines" ignore the employment consequences of the proposals.

What we have is the early stages of evolution of a national energy policy—albeit faltering and incoherent—that concerns itself with control, allocation, prices and profits, but fails to take into account its impact on the human component of production.

The problem is, surely, that present tax, energy and economic policies are designed mainly to guide the flow and level of economic activity within the present structure of the economy.

Surely policies should be directed towards encouraging the structure to adapt to the difficult reality that is the future? In this what



"restructuring" is all about?

Because there has been, hitherto, a strong correlation between the number of persons employed and the size of the economy as measured by GNP or GDP, it has often been assumed that growth in energy consumption is directly and causally related to the growth of GNP and employment, and that the economy is either stimulated by increased energy supply or hampered by slower growth in energy consumption.

Increased energy consumption is not always correlated with increases in jobs or the economy; in fact, the reverse is often the case.

This means that, even if wealth is created, it is not distributed.

But, to the extent that consumers spend less income on (capital-intensive) energy resources, and more income on labour-intensive goods and services, employment will increase.

The employment consequences of different energy supply policies will be substantial, and New Zealand

therefore, policies promoting the historical growth rates of energy supply have been justified as leading to a sound economy and full employment.

In reality, increased energy consumption does not, of itself, inevitably create wealth or employment; it is the way in which energy (together with labour and capital) is used, that can create wealth or employment.

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The employment consequences of different energy supply policies will be substantial, and New Zealand

must plan to take account of these impacts on our workforce.

When major energy (or any other) programmes are developed, should we not have employment impact reports?

Lack of reliable energy-employment impact data will impede development of a

comprehensive manpower policy, and achievement of a full-employment economy. One presumes that the latter is what really matters.

Large, centralised production facilities are energy- and capital-intensive, but low in labour intensity. With the cost of energy (particularly oil, or oil-derived) rising rapidly, the economics of this type of operation are becoming less favourable, as are their environmental and transport consequences.

At a time of an "energy glut" of gas and electricity, we hear cries to set up industries which can use these (allegedly cheap) resources, to create jobs.

Surely the correct approach is to look first at society's needs (including exports) then at alternative ways of meeting the needs (eg capital-energylabour-intensive options) and then decide how much of each of the available resources will be devoted to meeting the needs?

If unemployment is substantial, surely this is in itself a basic item of input to such a decision-making process?

Subsidies (and tax breaks) should be tools that are carefully directed at areas where it is desired to develop structures, or encourage the to adapt. At present, subsidies and benefits are aimed at preserving current structures, indefinitely.

Conservation will create many small and medium jobs in the field of basic energy conservation. Not available for construction contractors, builders, and a wide range of service industries.

According to some American authorities, conservation is the best job creator of all, in the energy field, out performing other measures by a factor of 3:1, considering both direct and indirect employment consequences.

In recommending strong support for a policy of conservation, it is vital to make quite clear that there is a major distinction between conservation and curtailment.

Curtailment of energy supplies clearly results in short-term employment cutbacks, as producers are unable to adjust their processes to such unexpected reductions in supply.

Conservation, on the other hand, is the planned, more efficient use of energy resources, and has a job-creating impact, in two ways.

First, to the extent that conservation entails insulating, weatherproofing, maintaining, upgrading or in some other way improving the efficiency of a building or machine, jobs will be created by these activities. (The welfare of the owner or user will also be improved, as a consequence.)

The possibility of local manufacture or assembly of conservation kits should also be investigated.

Recycling is another, where the economies are often less favourable, but which are rapidly becoming better, with rapid increases in energy costs.

Impact resulting from the fact that energy production and distribution are very capital-intensive, and tend to move funds away from other employment-generating investment opportunities.

Energy conservation, on the other hand, is generally less capital-intensive, although it is normally the user who has to invest more than the supplier.

There are two ways to approach the conserving of energy, in an area such as, for example, domestic space heating.

One is to raise the price of energy, since there is no incentive to conserve if the resource is too cheap.

If increased to an extent, there is a strong incentive, however, for individuals to use less energy.

This is a path which, among others, to reduce economic activity and decrease employment.

Another way is to create a combination of economic regulations for construction, and economic incentives for developing oil or oil-derived rising rapidly, the economics of this type of operation are becoming less favourable, as are their environmental and transport consequences.

At a time of an "energy glut" of gas and electricity, we hear cries to set up industries which can use these (allegedly cheap) resources, to create jobs.

Encouragement of conservation efforts in industry, usually done via imposed rates of depreciation or improved capital transfers. While these investments are often essential, such payments still "subsidise" oil and capital.

By making capital-energy less expensive, it runs the risk of further encouraging the shift away from labour, unless the policies are carefully constructed to minimise this effect.

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Shipping Corp results follow new ship down the slip

by Ree Mazengarb

SHIPPING Corporation board members and their wives were treated to first class air fares to the celebrations, with accommodation and a few treats thrown in, for the launching of the new container ship New Zealand-Caribbean.

The all-up cost of sending representatives from New Zealand, plus guests from Britain, has been estimated to \$200,000.

But last week corporation officials said they could not give a figure.

This year invitations were restricted.

Each of the four maritime unions was invited to send one representative, minus wife. They travelled on the cheapest excursion fare.

A union official said this type of exercise was customary world-wide.

Some of his overseas counterparts junketed for launchings almost once a month, he said.

Union representatives are sent because they have the opportunity to examine the ship's facilities and can have rectified on site any defects which might later create problems.

New Zealand guests flown to the ceremony included H L Julian, a corporation board member appointed in the last few months; J R Maddren, a director; Ian Mackay, a marine lawyer and director; Sir Tom Skinner, deputy chairman; Sir John Ormond, recently retired as chairman; corporation general manager C H Spaight; G Ritchie, the corporation's engineering superintendent and Michael Morris, the company secretary.

The letter would have pointed out that NBR carried out readership research periodically as part of a programme of continuous analysis of its readers and their preferences.

The letter also mentioned that because National Business Review readers are busy people and because filling in the questionnaire takes some minutes of their time, the publishers wish to offer a numbered, limited edition, quality cartridge paper reprint from the original etching of "Milan Mill, Okaki" by William Francis Barraud (1850-1928).

The questionnaire seeks information from people who may consider confidential. To provide the necessary degree of anonymity the questionnaire is posted directly to the research company conducting the survey. Before processing begins the Hayton Research Centre removes the tear-off strip containing the subscribers' name and address and forwards this only to the National Business Review. The tear-off strip is returned with the barraud print.

Those board members and executives, most accompanied by their wives, were flown first class to London.

A BAC 111 was chartered to Bramall from Gatwick and a party of business partners from England joined the passengers.

Extras included accommodation at Bramall, dinner and a party in London for the New Zealanders.

A delegate from each of the Seafarers' Union, the Cooks and Stewards' Union, the NZ Merchant Service Guild, and the Marine and Power Engineers Union also went to the launching.

Ritchie, who had been

Inside:
SEVEN companies control most of the world's cigarette manufacturing. Three operate in New Zealand, accounting for virtually all tobacco products sold here. Bellinda Gillespie looks at the industry which has lately come under fire from the United Nations—pages 28, 27 and 25.

NEW technology, heralded by industry as a revolution, is seen by the unions as a threat to their existence. (See Gram reports—Page 32.)

SOARING bullion prices have placed operators of Australia's marginal gold mines in a quandary: shown that the citizens is gaining the financial power to tell his Government "no", and are boosting South Africa's economy. (See 34-35.)

The best tobacco money can buy



Rothmans of Pall Mall—
World Leaders in Research

Government warning:
smoking can endanger health.
Low to Middle Tax

Labour MPs behind
bunny business: P. 3

New Zealand's national weekly of business & affairs

Registered at Post Office
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Incorporating Admark

Rhinesdale. Worthy of any occasion

New Rhinesdale Riesling deserves a special place on your table. So we've presented it accordingly. In a carafe that sets it apart from other wines.

In traditional Rhine style, this light bodied wine was vinified from selected Riesling-Muller Thurgau grapes and blended with sweet reserve to add natural sweetness.

Rhinesdale is a wine with excellent balance and an appealing varietal flavour. It has a fresh, delicate taste that complements light cuisine.

In 675 ml carafes and 750 ml bottles. **RHINESDALE**
Another of the new generation quality wines from Penfolds.

TPP7455

Who's for a (fiscally-regulated) income tax cut

by Colin James

AN interesting little sidelight to the recent manoeuvrings in the National Party has been the appointment of Doug Kidd to the policy committee.

Kidd, a lanky chain-smoking new lawyer MP from Marlborough, is a hardline private enterprise. He has been one of the more relentless scourges of the Cabinet backbenchers and their unconstructed bureaucratic lackeys.

He played an important part in the backbench demolition of the fiscal regulator, which was intended to allow tax reductions without Parliament's approval. He has been active on several backbench caucus committees, including the energy committee.

Kidd replaced Frank Gill as the third member of the parliamentary party's delegation — the other two are the leader and deputy leader — on the six-person policy committee which writes policy.

Kidd is a welcome addition in the organisation's eyes. He is likely to strengthen its hand in keeping official policy on the straight and narrow.

He is an outspoken man, not easily cowed, convinced that his 323-vote majority will survive in 1981 only if the party's tarnished private enterprise, anti-state credentials can be restored and so recover votes lost to Social Credit.

The fact that Kidd's appointment is a prime ministerial prerogative makes it all the more interesting. Why should the Prime Minister make a rod for his back? Is it an indication that the Prime Minister is abandoning old friends and joining the reformers?

To some extent Kidd's appointment was dictated by tradition and logic.

He has been an active organisation man and is one of the parliamentary party's elected national councillors. It is traditional to appoint a backbencher to the third parliamentary spot on the committee.

Nevertheless, there were safer people the Prime Minister could have chosen.

If he has been prepared to bite the Kidd bullet, it may indicate that the axe will cut deep in the promised Cabinet reshuffle, now probably not more than six months away.

Over the past six months there has seemed to be two Cabinets: a Cabinet of newcomers and relative newcomers who have been making the running on pushing economic management toward a more market-related basis; and an older Cabinet, more used to the cautious interventionism of the 1960s and early 1970s.

Categorisations on these lines are hazardous, since alliances can change from issue to issue and in my case, deep down, even the flatouts of the 1960s believe in the same things as the trailblazers, or say they do.

Nevertheless, one might confidently put into the second Cabinet ministers such as Lance Adams-Schneider, Allan Highet, Bill Young and David Thomson.

And into the first go ministers such as Derek Quigley, Warren Cooper, Jim McLay and the 1978 version of Hugh Temperton.

As power has shifted in favour of the first Cabinet, close observers have noticed a firming up of old beliefs in other ministers, including Brian Taitboys and Duncan MacIntyre.

Even the Prime Minister seems to have undergone a

sort of slow conversion — from his scornful rejection of economic liberalisation advice from his officials in January through his preference for "fancy footwork" in May, his subliminal acknowledgement of the importance of market forces in the Budget, his aggressive defensiveness about his ideological antecedents around a annual conference time — in one speech he talked of woolly thinking on private enterprise — and his growing preparedness to assert the importance of the Budget changes in recent weeks.

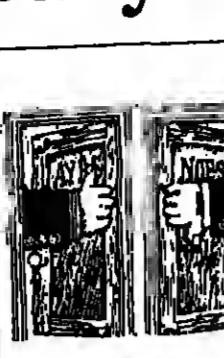
It is difficult to escape the conclusion that this amounted to a series of deficits, symbolised by and brought to a peak in the fiscal regulator.

For instance, where did the private enterprise, anti-state interest lie in the drivers' fight?

It can be argued that had the Government interfered with the drivers' Arbitration Court case, it would have struck a blow for reshaping wage-fixing along contract lines nearer the free wage market, hands-off ideal.

A nice symmetry it is.

It is even sold that this was



POLITICS

the wrong things, but can be suppressed when things are going right.

And some more right things are in the pipeline.

Examples are three bills involving local authorities. Backbench pressure is likely to kill all of them.

One proposal to allow the Auckland City Council about to auction stock. That transgresses the backbench party notables to put it around that he had become irrelevant to economic management.

Kidd is a welcome addition in the organisation's eyes. He is likely to strengthen its hand in keeping official policy on the straight and narrow.

Another, proposing to alter Auckland Regional Authority contracts with local authorities to increase certain charges, falls foul of the "sanctity of contracts". A bill changing the method of electing ARA members is objected to on the grounds that people shouldn't come running to Parliament with problems that could sort out themselves.

There is plenty left for the reformers to get excited about.

Some pointers have come from the British Tories who have started demolishing quangos (quasi-governmental organisations) which clutter up vast areas of economic and administrative activity; they have announced plans to split up the Post Office and let private enterprise in to compete in the telecommunications field; they have put the squeeze on the hopelessly unprofitable nationalised steel and car firms; they are getting ready to involve private capital in other state projects like oil

exploitation and airways.

In New Zealand backbenchers say that not only have ministers got the message about the new ideology, but bruised bureaucrats have also been adapting. The sort of rough treatment agriculture officials got from the envoys committee earlier this year is now rare.

For their part, some of the backbenchers are now slightly more inclined to acknowledge the "realities" of politics and allow a little flexibility.

This is understandable.

It is now likely that

will sit in December, after

Commonwealth Parlia-

mentary Association orders

An income tax rate

then would be politically

appropriate. On the one

would prove the

Minister's point about

for the tax rate flexibility

sought through the tax

regulator. On the other

would satisfy both

honour by doing

legitimately.

Freer said it was Revl

Alley's 80th birthday

celebrations in Peking

(December 1977) that began

the whole venture.

Talks with Chinese trade

officials began on processed

foods and canned tropical fruit

imports for New Zealand.

"During the course of the

talks the matter of rabbits was

raised. I saw the potential

immediately," said Freer.

Auckland businessman Fred

Newton was with him in China

at the time. Freer introduced

him to his long-time friend,

Chinese Foreign Trade

Minister, Li Chang.

Newtown represents

Commodity Traders Ltd, a

subsidiary of Amalgamated

Marketing.

In the event, the decision

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EDITORIAL

AT least some of the stimulus behind the National Development Bill was a point raised by BP (New Zealand) Ltd that more than 30 different approvals would be needed to establish a methanol plant. The Winstone-Chonje joint venture at Kaiti opened in March; it too required more than 30 permits and authorisations.

Much more is at stake with the Maui development. Energy Undersecretary Barry Britt last week gave an indication of the investment levels — including the Maui A platform, already constructed, the expansion of the refinery at Marsden Point, a methanol plant, a synthetic fuels plant, liquefied petroleum gas plant and distribution involves more than \$2000 million. Thus streamlined procedures are sought.

Both private and Government agencies can apply for a declaration of "national importance" for a project under the bill. The Government will declare projects to be of national importance by Order-in-Council. Much, then, depends on the Government's perception of "national importance".

The Planning Tribunal will centralise the decision-making process. Regional Development Minister Warren Cooper has said most local bodies would agree they had little experience in dealing with large-scale projects. Using the planning procedures in the act would be "doing local bodies a favour," he observed. But the central government which presumably does have the expertise to do things properly spent five years deliberating on an overhauled Town and Country Planning Act to decentralise the power that it now is taking back.

After hearing appeals and objections at its one hearing, the tribunal will report to the Minister and make a recommendation; the Minister has one month in which to make public the report. By then he should have reached a decision, at least which there will be no rights of appeal.

Muldoon talked in August about achieving a streamlining without eliminating anyone's rights. People could put their case to the hearing. But such rights are worthless if the public is ignorant of the issue being considered, and the bureaucracy is notoriously contemptuous of the public's right to information.

Ignorance still surrounds the Clutha project — which the Government wants to push to completion. Calculations used by the Ministry of Energy to justify construction of the power station remain confidential; yet the method used to calculate the need for the dam are fundamental to the issue.

DSIR scientists were prohibited from making statements on such subjects as nuclear power and native forests; they were reminded that their responsibility was not to the people of New Zealand, but to the Government.

The Natural Gas Corporation kept from the public reports on its ammonia-urea proposals for Kapuni at a time when the Waitemata West Council was conducting hearings on the plant.

Such contempt for the public by state agencies makes a mockery of suggestions the new procedures will allow the public an effective voice.

The Bill has gone to a select committee; submissions close in less than three weeks. This urgency is outweighing the need for sound law-making, just as indecent haste could lather the community with more multi-million dollar disasters. After all, essentially the Government is just making things easier for a people who bungled the Comalco deal and Marsden B project to do the same on a grander scale with Maui.

Bob Edlin

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BILL Rowling, who some of us might remember is the dynamic Leader of the Opposition, gave signs last week of the secret behind his get-up-and-go.

He discovered Petrocorp's plans to build an ammonia plant at Kapuni. And obviously, what he found disturbed him.

So he made a statement and won himself a few headlines.

Everything he had heard made him uneasy about the project, he declared. He wondered if an ammonia-urea plant was the best use that Petrocorp could make of Maui gas... he wondered about the size of the plant... he wondered about selling problems because the world market is in oversupply.

"We have talked with quite a wide range of people and are rather shaken by the growing concern about the plant," he earnestly told Radio New Zealand.

Petrocorp's plans have been generating plenty of dispute for several months, of course.

National Business Review

described the scheme as a

disaster on all fronts —

economic, environmental,

agricultural — back in our

April 15 issue. We raised

earlier doubt in November

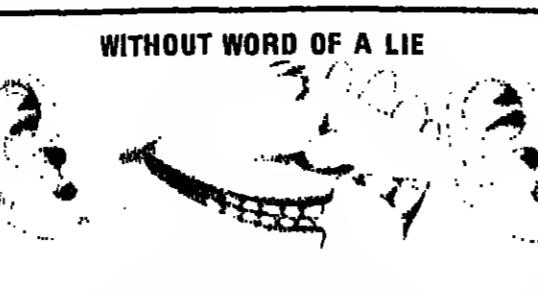
last year!

Bill Rowling's own advisers are said to have tried to persuade him he should raise questions about the project.

Now that the scheme is being examined at public hearings by local bodies in the Taranaki which must approve various aspects of the scheme, Rowling has discovered the plant is second hand... that there is a significant scientific opposition... that urea production is of doubtful value to New Zealand... and that the Commission for the Environment is concerned.

Most of which was revealed in April by NBR — and the commission's concern was raised in a report publicly released almost as many months back.

Rowling was inspired by an article in the Evening Post a



day or two before he broke his silence. And better, later than never, maybe...

But we wonder which election Rowling is aiming to win.

APPARENTLY driven by a paranoid fear that advertising might slip into new columns in disguise, some newspapers go to incredible lengths to eliminate the names of business firms who are often responsible for creating the news in the first place.

It can be argued that the eight days it took for the Courtenay Place-posted newsletter to reach its destination represents an increment of 400 per cent in the Post Office's handling performance compared with what it used to achieve.

But everything is rising these days, isn't it? At \$49.8 million, this year's Post Office profit was itself up 34 per cent on last year's figure of \$37 million, for example, and the bulk rate for posting newsletters has just been raised 80 per cent from 5 cents to 8 cents an item with a further increase scheduled for next year.

Plainly, the bulk move has been made to help ward off any possibility that a downturn in Post Office business may reduce its income.

Thus no one should grumble about postal delays.

The extra time is needed, after all, to enable Post Office staff to count the extra profits their airmen are making.

A NEWSLETTER posted at the Courtenay Place Post Office on September 18 reached its Hallstatt destination about three

Total cost of post: probably near \$10.00. And we all know funding this sort of extravagance ultimately poor bloody temps.

Petrocorp would do to reappraise its public relations whereby they ignore requests for information the public does want while spending just producing information can do without.

THE Development Finance Corporation's Applied Technology Programme could bill themselves as this country's sole capital ventures willing to back high risk invention and local research and development projects.

But the ATP's future ap-

pears to be somewhat by lack of finance — that is likely to be used in Parliament in the next few weeks.

Whoever broached the subject of the ATP's budget on Jonathan Hunt's wall to mention the most recent and publicised success in the New Zealand inventiveness drug: molybdenum.

Like the speech to the New Zealand Cosmetic and Toilet Manufacturers' Federation, for example.

But Lance didn't deliver it. That small chink was undertaken and nicely, too — by Warner Lambert.

Maybe Lance thought he couldn't keep a straight face. After all, it did contain some observations on the Government's economic measures.

The interest rate policy; the floating exchange rate and, you've guessed it — the removal of price and profit control and free wage bargaining.

Down in Wellington meanwhile, the Government was threatening to use its remuneration laws to wallow the drivers and amending the Commerce Act with outrageously far-awakening powers to curb prices and profits.

The Japanese will be looking at a wide range of products, and though not expecting to be buying on a large scale this time, the visit will serve to acquaint them with what local manufacturers can produce.

Japan's largest supermarket chain, premier department store and major trading houses will be represented.

It is now in the hands of Erie White and Associates, whose cosmetic expertise should become apparent the next time the PPTA has a brush-up with Education Minister Merv Wellington.

AN American visitor tells us he was delighted to have flown here with Continental Airlines.

A couple of members were

ungracious enough to make

public comment on the affairs

of the union during the recent

troubles — and not

particularly nice comments at

that.

They had the impudence to

disagree with the tenor of a

statement made by branch

secretary N D Dawson, and

objected to the impression

given that a meeting of the branch had wanted a general strike.

They reckoned the meeting had merely supported the idea of a general strike if the Federation of Labour thought it necessary.

Trouble is, they had signed a pledge when they joined the union that they would abide by the union's rules — and those rules apparently oblige members to keep their mouths shut about union bosses.

Deigning to dissent from His Master's Voice earned them \$6000 to buy a Gestelher Fasik system.

It went to the Crown Finance

Office in Masterton.

And according to the firm's

export manager, Hobin Lane:

After being turned down by

the Reserve Bank, perhaps...

THE PPTA — or Post-primary Teachers' Association, for those of you who like to go beyond the initials — apparently recognised it had an image problem, and so went hunting for a public relations firm in a bid to pretty itself up.

Just how bad its image problem was perhaps can be gauged from the fact that the first PR firm it went to turned down the business — and so did the second.

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IT might be hard to persuade the British to milk it instead of helping the Dairy Board facing an uncertain future in Europe.

But apparently things are looking up for our wines.

The British High Commission in Wellington tells us New Zealand wines were "found" at the second World Wine Festival at Bristol, where more than 400 exhibitors from 28 countries took part.

AN American visitor tells us

he was delighted to have flown

here with Continental Airlines.

He was in a bit late for his

plane in Los Angeles, and

found that Continental had overbooked by 20 passengers.

But they put him on a

Western Airlines connection to

Honolulu, where he was able to

catch his Continental flight to

Auckland.

And for the inconvenience he

had been caused, Continental

paid him \$400 — which was more than the price of his original chespie fare.

Although they are relatively unknown, a fair like this one at Bristol gives them an unbiased platform from which to display their advantages. Already we have developed a trade for New Zealand wines not only in Britain, but in the rest of Europe," Lance says.

Well, the fact that the Government keeps saying that rationing is not on gives it every likelihood of indeed being on — but past experience with the bright sparks in the Ministry of Energy suggests that if ration books are being printed, a bundle of them will have fallen off a train or bus by now and thus have been made an open secret.

And what credence do we

place in all this?

Well, the fact that the Government keeps saying that rationing is not on gives it every likelihood of indeed being on — but past experience with the bright sparks in the Ministry of Energy suggests that if ration books are being printed, a bundle of them will have fallen off a train or bus by now and thus have been made an open secret.

Petrocorp's plan to hog the lot

by John Draper

OVERSEAS bankers are queuing up to invest in Petrocorp's fully comprehensive \$1.5 billion petrochemical complex, group general manager Jim Hogg proclaimed last week.

Petrocorp's proposal for a methanol plant could still be fitted into the Petrocorp plan.

Mobil synthetic petro option could also replace the South African synthol process Petrocorp wants to operate under licence producing 45 per cent of petro needs, with condensate included, 36 per cent of diesel and 80 per cent of kerosene requirements.

Mobil's process will produce

one oil in any quantity and will need three methanol plants to support it.

Petrocorp hopes the Government will buy its scheme on two counts,

• It will make full use of the minor gases found with methane, the main content of both the Maui and Kapuni fields, producing export earnings of around \$400 million in a year at today's prices.

• Petrocorp wants indigenous private capital invested in the project, though the main finance will come from overseas borrowing. By

Hogg refused to exclude the possibility. And NBR understands that water rights at Kapuni may be difficult to get.

and lengthening engine life. Then there's the suspension. What can be said? It is built to go anywhere... that floating front axle helps Land Cruiser through sand, mud and any other hazard. And the same dual-line brakes that are so safe off-road are double protection on the tarmac.

Specifically designed seats let the driver's shoulders and torso move freely while the hips are held firm and snug. This is best for tough going. But that same comfort comes through on the highway too... comfort augmented by thorough ventilation that eliminates stale air. When you're out in the wilderness, you need a partner that is all heart...

Land Cruiser is. It will take any road. And when there's no road, it makes its own. Toyota engineering made it that way.

THINK IT OVER

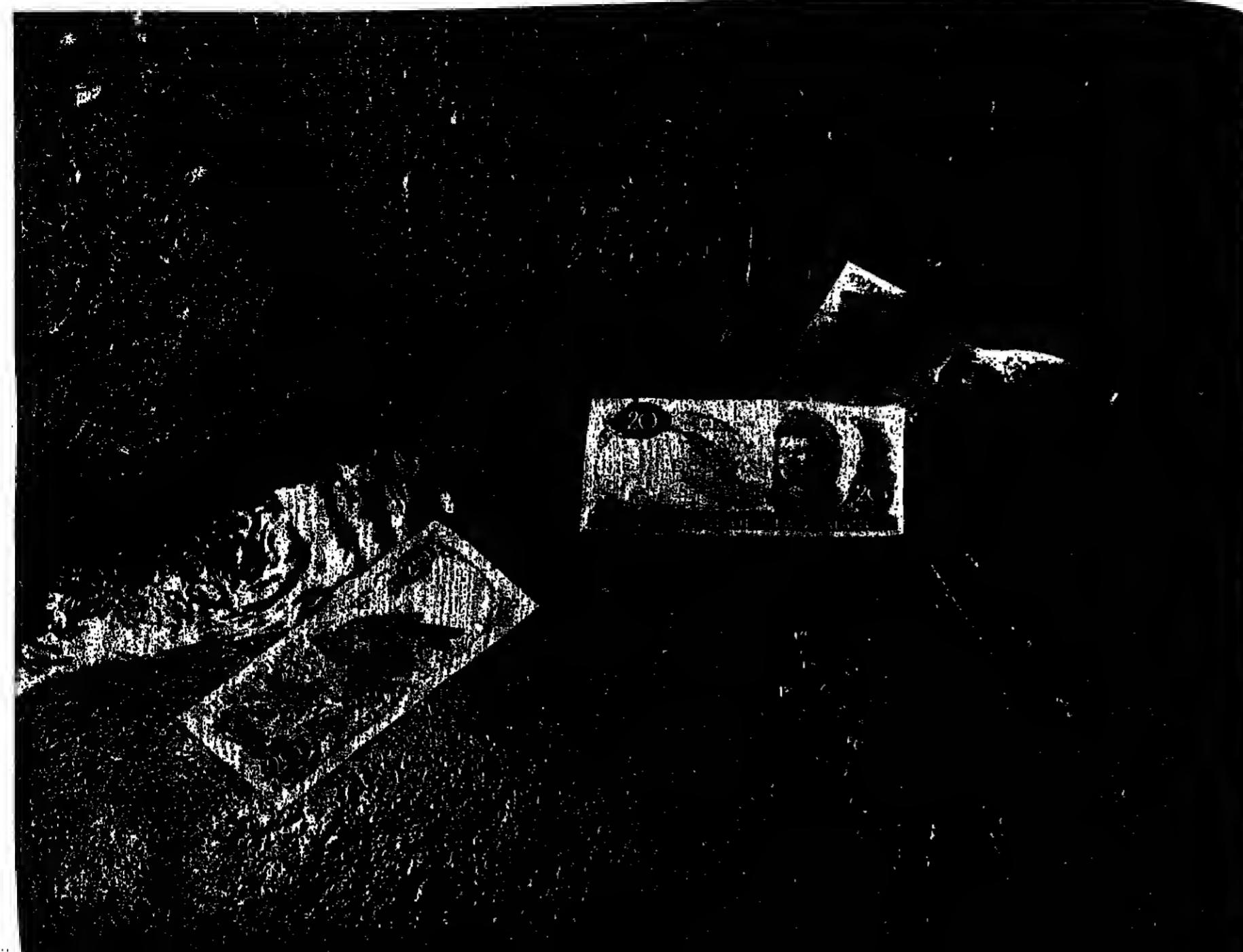
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...and the rest of the world.



This isn't the result you'd expect from your conference. But if you hold a company conference during the week this is what happens. There's a productivity loss on everyone attending — and you're still paying their wages. If a customer calls and their contact's at the conference, you get a frustrated customer. And if a prospective customer calls, that's lost business.

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Transvision: anxious not to appear racy

WHEN Transvision made its \$18 million takeover offer for General Finance, sharemarket reaction regarded the bid from cheeky to audacious.

It certainly was a David and Goliath encounter — six-year-old Transvision, with a share capital of only \$2 million, bidding nearly \$20 million for 10-year-old General Finance, with assets at last balance date of \$13.6 million.

Despite the scepticism among sharemarket pundits, Transvision sees the bid as neither bold nor cheeky, but a carefully thought out planned expansion of its business.

Transvision managing director Allan Hawkins last week outlined some of the reasons behind the bid and backgrounded his company's growth, management style, and aspirations.

For a start, Hawkins said some commentators saw his company as something of an upstart.

He explained: "Because we were small and getting involved with a bigger company, we felt we had to go in with a really credible bid."

"We had our own money and showed it by getting our bid on the table. We felt it inappropriate to come in at a lower bid and look like we were bargain-hunters."

By money on the table, Hawkins was referring to the \$9 million or so in overseas backing coming in.

General Finance directors have already rejected the bid as too low.

The obvious next move by Transvision might be to up the ante. But Hawkins would not be drawn on that subject beyond saying his company had done its homework carefully on the first offer price and had no intention at that time of getting into an "auction situation".

If there was one single impression Hawkins seemed

to have made on NBR, it was that his company was not led by brash young hotshots.

"We hope you wouldn't see us as too racy," he said.

"In some respects we are a company that only has a short record and one of the things we are extremely conscious of is that we've got to develop a track record."

NBR: "What do you look for in an executive when you hire?"

Hawkins: "We'd be looking for a reasonably basic sort of character — the old common sense thing. We're not looking for the racy young executive. Every guy in this organisation is meant to be able to do the practical thing. This is evidenced by our organisation. We have a direct line from this office to our branches. We haven't got a lot of hierarchical layers."

NBR: "So you're not looking for lateral thinkers or innovative people with an eye for new fields of endeavour for the company?"

Hawkins: "As a company we would stick with what we know. This is something we've thought a lot about over the last year. We looked at a couple of possibilities. And we're quite sure we can get our growth and profit out of the things we know how to do."

"It's easy to get diverted when you get carried away on an idea of a concept. We keep dragging ourselves back to our mainline operations."

"The third reason given was that General Finance would be inhibited by the restrictions put on its operations by Transvision between the date of the bid and the day the offer became unconditional."

Meanwhile share prices for both companies rocketed. General Finance's from \$1.35 to \$1.77 last Wednesday and Transvision's from \$1.65 to \$2.35.

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easier to rent than to make a big purchase decision. And there is also the cost escalation for TVs.

"When the market begins to flatten out Transvision still has a lot of black and white sets out there on rental that are changeover prospects."

But if the TV market were flattening out, how long could Transvision continue to grow as it has in the past in TV rentals? When TV business flattens out, what would the company put its energies into?

"Our expertise lies in finance and TV rental. We have a very small finance company as part of the group. We will give that a bit of a push," said Hawkins.

"Just this week in the building we opened a shop which is the first combined TV rental and end money shop."

"The takeover of General Finance would leave us with a big TV rental company which would lead to big savings in overheads. And an opportunity to get ourselves into the financial side in a big way at a level that we couldn't achieve by natural growth in the next 10 years."

"That is assuming Transvision takes over General Finance. If it didn't happen, what would the company turn to when the TV rental market flattened out?"

"As the rental portfolio levels out the profitability increases. You invest less in new TVs and depreciate the TVs you have out. Your business turns into a positive cash flow business," Hawkins said.

"Up to now every dollar we could get our hands on we

spent buying new TVs. When we get to the stage where rental income is enough to buy all the TVs we need plus a bit left over we need an outlet for those funds. That's why the TV rental business and finance business go hand in hand."

Transvision had substantial backing for the General Finance bid. Was that becking for the specific purpose of taking over General Finance or the more general purpose of expanding Transvision's finance arm? If the General Finance bid came to naught, were those backers interested in other options?

"Yes they could be. We haven't thought of alternative possibilities yet. But evidence of the interest our partners have in our company is the fact that they facilitated the provision of something like \$20 million," said Hawkins.

"We went to them with the specific purpose of taking over General Finance. They could be interested in alternatives. But it's not our intention to change the existing structure of the Transvision group right at the moment."

How would General Finance's operation be changed if Transvision took it over?

"We have already said we would direct it along more clearly defined lines," Hawkins said.

"You've got Broadbands with their money centres Mirra is clearly defined in consumer and commercial lending. UDC is more of a wholesale type financial operation. General Finance doesn't seem to me to fit into any of these descriptions."

Construction firms reel under downturn

AUCKLAND'S construction industry has had a rough week.

Another problem acknowledged by Davison was an uneconomic loyalty to his staff. He was reluctant to lay off staff and as Davison said, "the staff were unemployed".

Those staff laid off by Davison got the company into hot water with the Master Builders Association who expelled Davison for paying above "approved" redundancy payments.

Davison said he believed most of the company's creditors would be paid within three to four months.

Milne Construction was placed in receivership by its major debenture holder the ANZ Bank. The receivers are assessing the situation. So far the company's 80 employees retain their jobs.

Master Builders Association Auckland president Tony Daley said commercial building work load levels were critical. "Judging from information received from members, work loads are down 50 per cent from last year," he said.

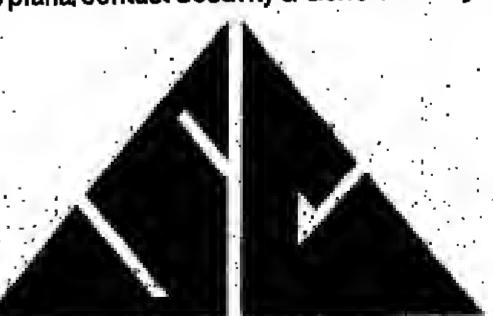
"Many firms usually carrying about 140 men were now down to 50 or so. Apprentice intakes were also at a low level, and jeopardising the future of the industry," he said.

"Government traditionally spent something like \$40 million a year on commercial building and about one third of the work in place," he said. "This spending is now negligible as is spending by the private sector."



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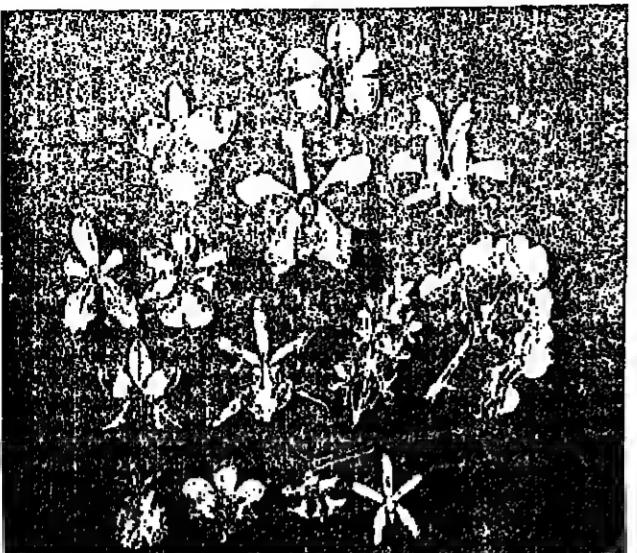
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3439 b



Midas touch meets Govt

by John Draper

TRADE and Industry's reluctance to grant import licences for product samples is holding up an international deal and potential New Zealand export.

At stake is the first commercial application of the SINTESD agreement with Singapore, for technological and industrial cooperation.

Wallington-based Tatra Industries wants to use a unique process developed by Setaco, the commercial arm of the Singapore Institute of Standards and Industrial Research, to gold-plate native flowers.

Setaco is willing to give

Tatra a production licence for the technological application in return for a shareholding in the company.

To launch the products on the local market, Tatra wants to import up to 2000 gold-plated orchids from Setaco, before going into production itself.

But to bring in the orchids, Tatra needs an import licence. And it has run headlong into Trade and Industry policy.

Trade and Industry, in the past, has refused all licence applications to import goods for market testing.

In line with the policy, officials threw out Tatra's original application.

Pressure from SINTESD administrators, who are also

within Trade and Industry, has the matter reopened. A way was found for the jeweller to enter.

But the delay could set back the project by up to nine months.

Both Setaco and Tatra wanted the market testing to begin in July, with production beginning before Christmas.

Now the orchids might not be test marketed before March.

Tatra's success is not likely to lead to any fundamental change in the department's policy towards samples.

The department's decision was further complicated by an earlier refusal to grant a licence to an importer who was not intending to go into

manufacturing.

Tatra group manager Robert Phillips, got off the ground if he's come within the framework of the SINTESD agreement.

"We hoped with SINTESD we would proceed very quickly," Phillips said. "We were over optimistic."

In line with group tag, Tatra aims to export 10 per cent of the jeweller's output on native flowers and leaves, Australia and the Pacific Islands.

But the company is not

all the hurdles yet.

Singapore's golden orchids on sale in New Zealand, it will be sending native ones to Setaco to ensure quality.

It is not yet certain that Trade and Industry will give a semi-processed product return for gold-plating.

Tatra

is

the

NBR BUSINESS WEEK

Predictions adopt 'SNA' as statistical base

by Peter V O'Brien

THE September Quarterly Predictions from the Institute of Economic Research use the new New Zealand System of National Accounts as the statistical base for its forecasts.

People who use the Predictions as a working document for assessing changes in their particular economic sectors may find the new terms strange, and even confusing.

They can note the Institute's consoling remark: "as in the past it will usually be ap-

propriate to concentrate most on forecast rates of change rather than absolute values, and hopefully this will minimise any difficulties".

The new system is contrasted with the "national income and expenditure" flows. Under SNA (as the economists, with their love of initialled jargon, refer to the new system), the emphasis is on "actors" (the source of product which generates income), while the previous system emphasised "institutions" i.e. receivers of income".

Anyone who wants to look at the differences between the two systems can read Introducing the New Zealand System of National Accounts.

by Institute staffer, T R O'Malley (also author of Quarterly Predictions). In pages 32-40 of the latest publication.

They will find an interesting flow chart relationship between the two systems.

The "main flows in SNA" are much simplified (page 33 Quarterly Predictions).

While those technical matters have little to do with

the general thrust of the latest Predictions, they are relevant to users of the Institute's publications. After allowance for the new system, there are disturbing forecasts in the latest publication, assuming that the Institute is more or less correct.

In the latest edition, the Institute — briefly — compares its projections with actual outcome over a 31 month period.

Commenting on the results, the Institute says: "From our own point of view, this seems to indicate that our un-

derstanding of economic relationships, while there is always room for improvement, is reasonably good, but that there is yet a great deal to be achieved in terms of understanding the timing of economic movements, and appreciating the lag structures which operate. Improved indicators of entrepreneurial profits and private investment expenditure would almost certainly have induced us to estimate more significant economic decline sooner than we did."

The accuracy of the Institute's forecasts and the outturns vary depending on the indicator assessed.

In general terms, it seems that the less the indicator is "politically" effected the closer the Predictions come to reality at the end of the day.

Some time ago the Institute chided me for suggesting that it failed to take account of political developments. It said, rightly, that it could not be expected to take pragmatic policy changes into account when making projections.

The Institute gives a clue to its problems in one sentence out of two pages analysing the accuracy of its predictions.

"Ultimately, it is for readers themselves to decide, in the light of the particular purposes our forecasts are expected to serve."

There is reference to two "policy" changes which effected forecasts.

The Institute is involved in economic analysis, and therefore can not be criticised for failing to take account of potential policy changes, because the latter affect the former only when they are made. Analysis can deal only with matters as they are.

But that "dealing" is a powerful force for policy change, or potential problems are emphasised, as the forecaster can effectively

QUARTERLY PREDICTIONS



destroy his own projections; policy makers note the error and take action.

Before the Institute wrote another letter, its organisation is doing better than shown by its historical assessments, for the record just given.

Today the Institute, again

the absence of possible price change, says that the G

movement in the March

Year should be between 11

and 15 per cent. The "u

derlying" rate at the end of

the year is expected to be

than that.

Import prices are expe

to rise, there should be an

upward tendencies in the

of increase in domestic pri

and in payments for impo

ected forecasts.

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Analysing annual accounts

by Peter V O'Brien

THE 1979 annual report of Challenge Corporation Ltd has a lesson for critics of companies which fail to disclose important financial information.

This writer, and others, commented last year on the lack of information regarding the taxation provision, particularly the various investment allowances and tax incentives relating to exports and other aspects of Challenge's business.

Information on taxation, including a breakdown of allowances and incentives, occupies a full page of notes to the accounts this year.

Challenge has published one of the most comprehensive tax solutions of any company.

A brief summary of the \$284,000 provided for tax in the 1978-79 year shows the difference between "normal" tax rates and Challenge's liability.

The detailed figures on adjustments and allowances have to be read closely in order to understand the company's tax liability on last year's profit, the tax provision in the balance sheet, and the deferred tax position. That is unfortunate, but there is no other way of giving full disclosure.

Challenge omitted comparative figures for 1978 in the tax notes, but that is understandable. The exercise this year took considerable time, and provides the relevant information. Recalculating last year's plus and minuses would add to the time and trouble without giving much more than an historical comparison.

The group starts with \$25,078,000 as net income before taxation. "Items of a permanent difference" worth \$23,230,000 are added to that amount to produce \$27,302,000.

"Items of a permanent difference" are then deducted.

There are ten items, totalling

\$8,380,000, including export

investment allowances of

\$975,000, "other" investment

allowances of \$18,000, export

tax incentives of \$456,000 and

"other" tax incentives worth

\$9,000.

The deductions left the group with a "pre-tax accounting profit" of \$20,922,000. Tax at 45

per cent was \$9,415,000 from

which \$131,000 was taken away

for an overprovision of tax

relief to prior years. Tax on

income was therefore

\$9,284,000.

The "tax provision" in the balance sheet is more complicated, but results in an amount of \$11,846,000 after allowance for timing differences and other adjustments.

Challenge is having discussions with Inland Revenue regarding some items of the tax provision, relating to subsidiary acquisitions acquired in previous years.

The historic accounts in the 48-page magazine style annual report require little comment. Challenge provides a mass of information about turnover, gross profit, assets employed and net profit by divisions, and all the usual statistics and ratios on a comparative basis.

Inclusion of current cost financial statements raises issues which suggest that considerable refinement is needed to this system of inflation accounting before it becomes a satisfactory method of recalculating company profits and balance sheets.

In the CCA consolidated statement of income Challenge provided a "circulating monetary assets adjustment" of \$12.8 million, compared with \$16.3 million in 1978. That adjustment takes account of the depreciating value of monetary assets.

It is offset by an increase of \$26.4 million in the "capital maintenance reserve financed from borrowings" which is the "gain" obtained by holding depreciating monetary liabilities (overdraft, deposits, creditors, and other term borrowings). The corresponding figure in 1978 was \$16.9 million.

The substantial changes in these figures, and their absolute size, arise from the nature of Challenge's business. The group includes several subsidiaries operating as finance companies or merchant banks, while the pastoral company has a quasi-banking function for farmers.

The company assessed the circulating monetary asset adjustment by taking the Society has no power to alter the tax laws.

The CCA accounts are a theoretical exercise; they have no legal force under the Companies Act, but show a more realistic "true and fair" view than accounts prepared under the historic cost convention.

In Challenge's case it is obvious that a CCA pre-tax profit of \$8,014,000 would not attract the same tax as the \$9,284,000 liability on historic cost pre-tax profit of \$25,078,000.

The company followed the society's recommendation and produces a loss of \$1,270,000. It is understood that calculating the actual tax rate on \$8 million would, for reasons given earlier, be a substantial task.

That loss, assuming tax was assessed on CCA profits, would be a profit less than 40 per cent of historic cost, so the point is still made. But this is a case where the society has been over-cautious.

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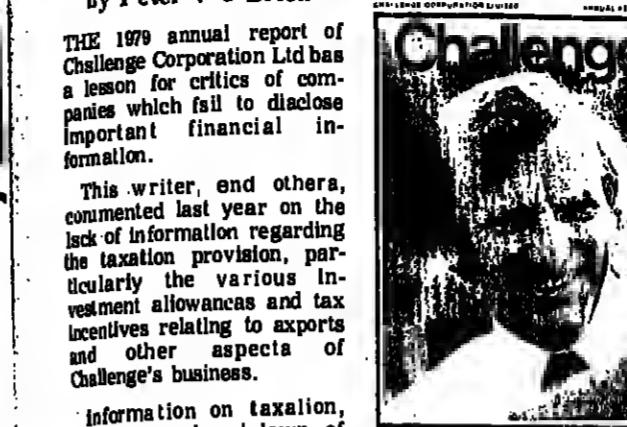
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ABC line exporters brave conference wrath

by Warren Berryman

ABC Containerline's multi-purpose ship, the Antwerpen was sitting low in the water alongside Auckland's Freyberg wharf last week.

Aboard were 17,735 tonnes of mineral sand from West Australia, 10,512 tonnes of alumina from Queensland, and 180 40-foot containers and 30 20-foot containers from Australian manufacturers.

As guests boarded the Antwerpen for a welcoming cocktail, 6000 tonnes of New Zealand galvanised sheet steel were being hoisted aboard.

Apart from the steel, the cargo out of Auckland on this non-conference ship's maiden visit, was disappointing — only a dozen or so 20 foot containers.

If tonnages out of New Zealand don't improve, ABC will probably have to drop Auckland as a port of call.

If this happens — if the conferences and producer boards are successful in driving ABC out of the New

Zealand trade — then our Australian manufacturing competitors will rest alone enjoying cheaper rates than paid by New Zealand manufacturers to the conferences. (See NBR, October 3, 1979)

Tied up near the Antwerpen last night was the ACT 4, a conference ship from a long line that have been providing regular service to this country's ports for years.

Exporters using ABC were not anxious to publicise the fact for fear of retaliation by the conferences. Many of those exporters present had previously shipped with Ace Lines — the non-conference carrier is a member. Blue Star is owned by the Veate family who also have a major interest in this country's meat industry through W & R Fletcher NZ Ltd — and a strong voice in the affairs of the Meat Exporters Council and the Meat Board.

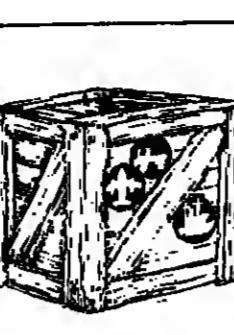
The topic most discussed was how New Zealand exporters were disadvantaged in world trade by our disproportionately high freight rates. Relations were cordial. The

shipper loaded the ship in quick time allowing her to leave before schedule. Waterline's Union boss Jack Clair was there hoisting a drink or two with ABC's agents, Harbour Board executives and exporters.

The presence of two journalists, one from NBR and one from SPTV, had an inhibiting effect on conversation where over they went.

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had a hot prospect to sell his goods to Columbia. His price was right on an FOB basis but New Zealand's high freight rates priced him out of the market.

This manufacturer checked up on the freight rates paid by his worldwide competitors to the same market. The following are the freight rates to Columbia.

Conference rates: from New Zealand with transhipment

at Singapore — \$350 a tonne. From New Zealand with transhipment at East Coast United States — \$273.20 a tonne.

Non-Conference: Pollich Ocean Lines — \$170.45 a tonne. Auckland Shipping and Chartering \$220 a tonne.

The same goods shipped from South Africa would cost only \$80 a tonne.

Goods from South Africa, half a world away from Columbia, would go for about one third of the cheapest rate out of New Zealand... or less than a quarter of the cheapest conference rate available.

As a result, the goods did not go at all. The Auckland manufacturer's FOB price was acceptable to the buyer. But there was no way he could compete on freight with his international competitor.

Other manufacturing exporters aboard said they had been receiving a lot of attention from the conference lines in recent weeks with inducements to shun ABC and remain loyal to the conference.

The Meat and Dairy Boards recently negotiated with the conference a 5 per cent freight rate increase for their products.

Manufacturers were not present at these negotiations and their freight rates went up 17 per cent to Europe and 21 per cent to Britain last week.

The Meat and Dairy Boards said they were happy with the new freight rates. Manufacturers, who will in effect be subsidising producer board freight rates to a greater degree now than in the past, are not happy with their freight increases.

Manufacturers were not present at these negotiations and their freight rates went up 17 per cent to Europe and 21 per cent to Britain last week.

Exporters shipping to

Tasmania say that the Maritime Carriers rate has brought freight rates through competitive.

Initially the shippers turned to the cartel's shipper to find space for the meat to use ABC's services and exporters.

The same goods shipped from South Africa would cost only \$80 a tonne.

Federated Farmers come out in support of

But the producer is the statutory regulator who may not be used to export products.

ABC's support is manufacturing exports reported to be marginal.

The owner of ABC, Tev Rosenthal, is considering taking the Wool Board's American Federal Meat Commission to rule on the practices which ABC is

from the Wool Board.

Other manufacturing exporters aboard said they had been receiving a lot of attention from the conference lines in recent weeks with inducements to shun ABC and remain loyal to the conference.

Rosenfeld owns the interests in New Zealand, part owner of Maritime Carriers which runs the Tasmanian service to the Union Company.

Rosenfeld owns the interests in New Zealand, part owner of Maritime Carriers. He owns another on the trans-Tasman to Dunedin, which is a chartered bare boat basis to him who turns time charter the Union Company.

Exporters shipping to Tasmania say that the Maritime Carriers rate has brought freight rates through competitive.

A high level of product engineering and technology was demanded; careful analysis of the product design followed by testing and development, and a thorough value analysis to test the economics of each element.

Market research and analysis was as essential as the programme needed to develop a product.

The case of the Leyland P78 must surely remind us of the necessity of assessing the market before making major product commitments", said Avery.

Did manufacturers know

their customers, or did they merely represent a sales figure he asked.

How did the customer use or misuse the product?

Management should assess

the customer by continual data

and not just a turn-down of sales before applying corrective action.

An over-reliance on national economic trends was often

used to explain a business

downturn when the real cause

might be poor product quality,

inefficient marketing or lack

of system becomes apparent.

The Situation

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continually requires data

because your market

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volumes increase and

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NZ FOREST PRODUCTS LTD

Points from the address by chairman A.G.Wilson to the 43rd AGM of the Company, at Auckland on August 30, 1979

IN BRIEF 1978-79 RESULTS

- New record level of sales totals \$335.5 million, an increase of more than \$50 million.
- Profit of \$22.9 million attained through use of shareholders' funds totalling \$273 million.
- Dividend of 15.5 per cent involved distribution of about \$11 million.
- Major contribution made to profitability by increased efficiency and output at major mills, especially the Kinleith pulp mills.

Switch to natural gas at Kinleith likely to cut the \$13 million a year bill for imported fuel oil by 80 per cent early next year. Continuing improvement shown in sales for the first four months of the current financial year.

SURVEY OF RESULTS

At times it is a pleasure to have forecasts proved incorrect. This was indeed the position last year. At the half year the situation appeared unfavourable and the Directors found it necessary to indicate the expectation of lower profit than for the previous financial year, which was some \$2.4 million below the peak profit recorded in the 1976-77 year.

Several factors contributed to the improved results for the second six months of the year. Stimulation of the economy by Government; local and export sales at higher levels; improved prices for some export sales indicating a general improvement in overseas markets. To an even greater degree, the improvement in results came from within the Company where increased efficiency and output of major mills, especially the Kinleith pulp mills, made a major contribution to profitability. Management and staff worked hard to obtain this result.

This improvement in the second half of the 1978-79 financial year was very satisfying and provided a sound base for the planning and endeavour now taking place to earn, under current conditions, profits at a more acceptable level on the shareholders' funds.

CURRENT POSITION

This improvement in production and profitability shown in the latter part of last year is continuing. For the first four months of the current financial year sales have exceeded those for the same period of the previous year by over \$37 million or 38 per cent. Profit is also well ahead of that achieved to the end of July 1978.

Thirty-eight thousand seven hundred and fifty tonnes of kraft pulp were made at Kinleith in July — almost 2000 tonnes more than the last record four years ago. In the same month Kinleith paper machines produced their highest ever output of paper — 24,192 tonnes for the month.

OUTLOOK

For the rest of this financial year the outlook is promising. In New Zealand, liquidity is tightening as Government policy, which stimulated the economy prior to the 1978 parliamentary elections, has now changed direction. New Zealand business could be described as being on a plateau at a somewhat higher level than at this time last year. It seems unlikely to improve over the next few months.

Activity in the building industry is at a comparatively low level; new housing starts are below 20,000 a year; commercial building is not buoyant and will be further adversely affected by monetary restrictions and high interest rates; renovation work continues to utilise an important volume of building materials; local demand for timber remains quite strong and sawboard sales have been maintained at reasonably satisfactory levels.

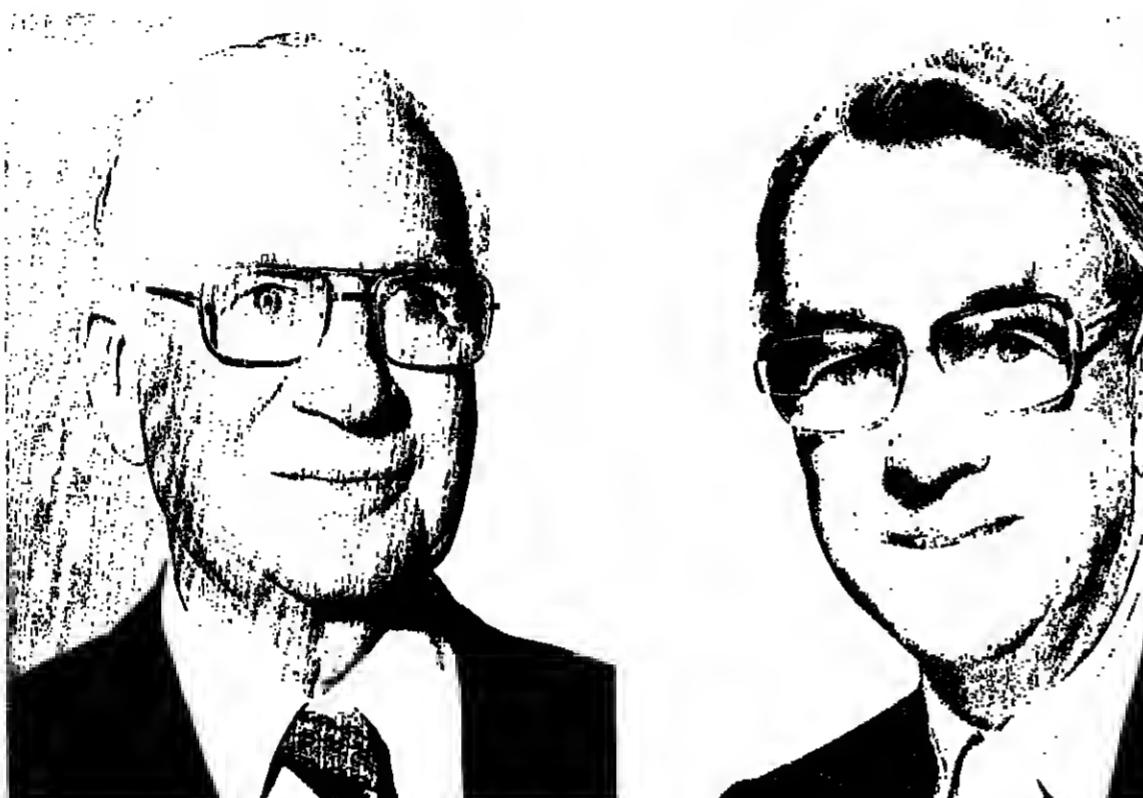
Domestic demand for kraft and other packaging papers from Kinleith and Mataura remains high and is expected to continue for some time. For printing and stationery papers a satisfactory order level is being maintained.

Our structural plywood sales in New Zealand are increasing with more diverse uses for this versatile material, including new agricultural applications.

The main exports are kraft pulp and kraft paper. For kraft pulp, strong demand continues and we have contracted to sell our production for this year. Prices have risen but are now tending to flatten. Exports of kraft paper are also absorbing our available output at improved prices, but are subject to keen competition which may well inhibit further price increases.

Sales of logs and timber to Japan are continuing at acceptable volumes and prices, whilst Australian sales of our timber are being maintained. Endeavours are being made to develop overseas sales of Whakatane paperboard.

While this is proving to be fairly difficult, some progress is being made against strong competition. Plywood sales are continuing to the United Kingdom, West Germany and Hong Kong, but local demand is now requiring a greater proportion of our output of this comparatively new product. Wallboards,



A.G. WILSON, OBE... NZ Forest Products Ltd Chairman.

"Multiwell" bags, tall oil and turpentine also contribute to the Company's export sales.

Cost inflation in New Zealand is not always recoverable in export prices. Higher transport costs also have an adverse effect and handicap our export efforts. The recent devaluation of the New Zealand dollar has had an immediate net beneficial effect on our Company.

The recent change in Government policy on the setting of exchange rates is also welcomed. The smaller, more frequent adjustments now being applied must go some way towards maintaining a more stable level of profitability to exporters by helping to offset the effects of local inflation.

Though still waiting for some details, the Company will receive an additional benefit from the Export Performance Taxation Incentive as outlined in the 1979 Parliamentary Budget.

The Company can face the future, which is likely to be characterised by rapid change, with confidence. The basic strength inherent in ownership of expanding forests as a raw material source plus good productivity and product and market diversification will ensure this.

OUR OBJECTIVE

The Company has adopted a Corporate Planning method of establishing and retaining target levels of performance. This recognises the objective of earning profits at adequate levels on the shareholders' funds invested in each sector, and for the Company.

Some will suggest that last year's profit of \$22 million was a large one, but the fact is that to attain it has required the use of shareholders' funds of \$273 million. The return on these funds of 8.4 per cent compares with the national average in 1978 of 11 per cent and this was lower than for the previous year. Improvement is essential.

THE WORK FORCE

Industrial relations in New Zealand leave much to be desired, but our Company has enjoyed stable industrial relations and the benefits of better trading conditions. Where the output of our plants has been increased the benefit has been shared with the work force through larger productivity bonuses.

OUR SHAREHOLDERS

Shareholders now number approximately 97,000. These members live in 85 different countries with by far the greatest proportion, 49,500 holding almost 65 million shares, being New Zealand residents.

DEVELOPMENTS

Patents are held for the bark extract process which will produce an adhesive for plywood and a bonding agent for particle board. The project is now in hand and should be completed early in 1981.

Furthermore there is the possible production at the Kinleith mills of a fluid packaging board which can be used for the

From Colocation to entrepreneur to developer

SUPPLEMENT TO NATIONAL BUSINESS REVIEW, OCTOBER 10TH 1979

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Property Developments, a joint venture with a Christchurch company.

The first project, confirmed last month, is the restoration of a 9300 square metres building known as Cashfields.

Other major developers had looked at it and even the owners had seriously considered demolishing the old Victorian structure.

The joint company plans to restore it right down to the stained glass windows and old gas lamp lights.

"Within three months, we raised \$1.6 million on first mortgage, confirmed the design, got agreement in principle from the council for its restoration and virtually confirmed all tenants," said Briggins.

Earlier, he had restored a couple of large Wellington houses that had been tagged for demolition for years, the Kelburn complex now called "The Villas". His wife, Binty, runs a shop there.

He believes there is an increasing place for restoration of old buildings, half the capital cost of new construction.

He does not talk too much about his private life; he admits most of his friends are business colleagues.

This places demands on family life, but Binty has worked since February at the Villas and they have both become accustomed to tailoring their life-style around business.

"I've sacrificed involvement in some activities," he says. "But I don't say 'no' just because I don't think I have time."

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A SPECIAL NBR REPORT
SERVING A COMPANY
REPORT

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From Salvation Army trumpeter to developer

by Rae Mazengarb
GRAEME BRIGGANS, slightly balding and rather round for his 34 years, gives the impression he would not be happy if he were not working on a challenging business deal.

"People say I'm a workaholic," he says. "But I don't believe I am — I find it easy to turn off business and relax."

As he goes through the day's programme with an associate, it transpires that he has been at the office since 5 a.m. There are meetings through the afternoon, and well into the evening.

The market is more depressed today than in 1978, but Bringans says the opportunities are still there.

Luck? — "I don't believe in it." It's just a case of sheer hard work, he says.

But he is not about to advise others to follow his lead.

"I had several offers of

beckoning from parties of some substance. I refused them, because I didn't want anyone to blame."

Five years ago he was playing a trumpet in the Salvation Army band.

He laughs a little. His parents were Salvation Army officers... naturally he played an instrument.

He joined the Williams group at the age of 18 after three years as an insurance clerk, while working for a developer in his spare time.

He formed Cromwell Property Resources Ltd with a capital of only \$2000 in November 1976, to offer the industry a concept which he says was largely untried here.

Rather than go searching for a project to undertake on his own, he would work with the whole range of people able to contribute to the overall development of property, from land owner, to architect, to builder.

"I see a place for people who own buildings, land or whatever, to have an on-going involvement in a particular project, if that's what they want."

He applied the concept to his first project, which involved a

large vacant site in Wellington for which the owners had paid a high price at the tail end of the boom.

Several other developers had looked at the land, but while the owners had the resources to own a completed building, they were not prepared to move until they had a tenant.

But there was nothing there to show to a prospective tenant. So Bringans had a scheme prepared, at no cost to the owner, showing how the land could be developed for multiple or single tenancies.

"Applying my philosophy, they retained ownership, but the project proceeded without tenancy being arranged. We negotiated the building contracts and so on."

"I had to buy a car."

Quite a step down from the Mercedes of earlier years, the Merlin he bought left him free to lease offices in the rear of Wakefield House, centrally located on The Terrace in Wellington.

It was a milestone, because he was selected from out of Auckland," he says.

A \$30 million project is quite something for such a small operation (Bringans reminds me he is Cromwell Property Resources).

He admits he had to involve consultants, but he prefers to work with others "at arm's length".

This places demands on family life, but Binty has

worked since February at the Vilas and they have both become accustomed to tailoring their life-style around business.

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Determined to "swim

against the tide," earlier this year he moved into his birthplace, Christchurch, forming Puynter and Hamilton

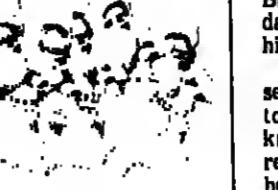
"I've sacrificed involvement in some activities," he says.

"But I don't say 'no' just because I don't think I have time."

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development market then was in a state of continuing decline. "I'd planned for some time to go out on my own... but it had to be when the market was at a low point", he insists.



PROFILE

The disciplines of property development learnt in hard times are the most important, he says.

"It's a cyclical industry, full of peaks and troughs... it's easy to climb on while things are on the rise. But the real test is the ability to survive the harder economic times."

The market is more depressed today than in 1978, but Bringans says the opportunities are still there.

Williams believes in overseas travel as an educative tool to supplement basic knowledge. And Bringans recalls several trips for which he was given no brief — just free range and observe the trends.

Overseas developers did not appear to stick to the New Zealand formula of the developer keeping all profits. Rather it was a case of combining resources, joining people, ideas, foresight, funds and expertise.

"Within three months, we raised \$1.5 million on first mortgage, confirmed the design, got agreement in principle from the council for its restoration and virtually confirmed all tenants," said Bringans.

Earlier, he had restored a couple of large Wellington houses that had been tagged for demolition for years, the Kelburn complex now called "The Villas". His wife, Binty, runs a shop there.

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Rally demands media plan

THE Motorgard rally will be held in the South Island next year as part of the international series. The whole event will cover about 2000 kilometres and will be run over four days.

Behind that bald announcement is a story of year-round planning and communication. "As soon as the dust settles, the wrap-up stories written and the report and debriefing completed, you start all over again," Peter Young, of Network PR consultancy told Admark.

Because of the international nature of the motor rally sport it is important to ensure that a constant flow of media reports go out to target audiences all over the world. Television, radio and press media in New Zealand are kept constantly updated as the planning unfolds.

In addition to the main sponsor, Motor Specialities and co-sponsors and car manufacturers have to be kept in the picture.



OLD SERIES...recycled pile

The activities of the full-time organiser produce a stream of news. His is the job of plotting the rally course and administering the rally, collecting and distributing media information, arranging press conferences, handling enquiries, fielding controversy and liaising with media in a motor racing maelstrom.

Planning for the special television programme starts months in advance. With so much of the rally route taking place on tortuous forest roads,

camera placements have to be carefully planned and where shooting from helicopter is involved, camera angles must be precisely determined.

As the rally approaches, the pace grows feverish. A special rally publication produced for sale at bookstalls. Media kits are built up, media accreditation arranged and passes issued.

Then comes the major press briefing before the rally starts. "Media day is a big occasion," said Young.

"Last year, we had about a hundred newsmen present — several of them senior international writers covering the world championship series. So the briefing has to be accurate and complete to the last detail."

During the rally itself, the PR man becomes communication headquarters collecting and distributing media information, arranging press conferences, handling enquiries, fielding controversy and liaising with media in a motor racing maelstrom.

"We believe that the kind of PR activity benefits everyone," said Young. "The news media have one central reference point and do not



Plugs hold no weight

THE management of this newspaper holds to an old-fashioned principle that if someone wants to use our columns to advertise a product, then they should buy advertising space and not ask us to run a free plug in our news columns.

That's why such a high proportion of items (usually

referred to as

"product placement") produced in this column, is a clear-cut example of the weight of its message.

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ad has become a little

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Seizing the moment, opportunity to amend the ad with the added weight of its consequences.

Facing the type of ad that produces a fair proportion of this column, is a clear-cut example of the weight of its message.

So the brief is to deal with the weight of its message.

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So the brief is to deal with the weight of its message.

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Wise use of resources

YOUR recent supplement on energy made me think. It's these conservationists, that can delay a project for several years, they're what's holding the country back.

If it wasn't for them, we'd be bounding ahead, squandering our energy needlessly, or giving it away to overseas interests. I sleep easier at nights now, knowing we're flaring gas at Onua, spilling water in our hydro-system, mothballing power stations we don't need, and searching for gas we would be embarrassed to find.

Conservation technology wasn't even mentioned in your

supplement (except for a neat ad from a solar water heater supplier).

What is conservation, anyhow?

It's been called the wise use of resources. Discussion of wise use of our energy resource is something that appears notably lacking from both your energy supplement — and from the government's current policy. The more's the pity for those who really do want a better standard of living.

H Barr
Wellington

Pipe rights corrected

WE presume "Plumbers win pipe rights" (NBR September

5) was written up by Mr Isaac from a news media release put out by our Public Relations Consultants, Eric White & Associates.

Unfortunately, the article bears little resemblance to our official news releases and,

indeed, in the transcription it has resulted in very misleading and inaccurate statement. Your article states that "Plumbers Limited has acquired the Pacific Basin manufacturing rights for Shell Chemicals Polybutylene Plumbing Pipe". This is definitely not correct — the true position is that Plumbers Limited have acquired the Pacific Basin rights for the West hot and cold water pipe system. Polybutylene plastic resins are used to produce the pipe for this system, but the exclusive rights apply only to the method of joining the pipe and connecting to fittings. This is clearly indicated in our original release. Your inaccurate release has led to complaints from a number of other manufacturers and,

particularly, the polybutylene material suppliers, Shell Chemicals New Zealand.

Your release is throwing considerable doubt on the integrity of our company and seriously affecting our relationship with other manufacturers and suppliers.

K T Baker,
General Manager,
Plumbers Limited,
Wellington

Bottles see the light

MR Duncan points out that cartons and plastic containers allow milk to deteriorate under the illumination of shops. Does he feel that glass bottles either

in shops or at the dairy protect milk better? He also states that there is a gross income variance between vendors of milk. Presumably this is the result of annual operating profit which a vendor would need to arrive in the top rank.

Finally, why does Mr Duncan think that the consumer should not have the opportunity of getting a taste of milk in the market place? No one suggests that the milk vendors would be well to sell them. He believes the consumer would be prevented from buying such milk from him. If he does, what is his logic for doing this? That he buys no milk unless he needs it at present system?

R A Baker
Chairman

Union joins National?

IT appears from your September 5 issue that elements of the trade union movement are picking up ideas reflected in the more rapacious and sighted members of the National Party.

Colin James writes: "It is an advocates' conference before it is a paper on filing including the possibility of indexing net after tax wages which would leave the Government the responsibility for determining gross rates through manipulation of income tax rates."

At the Auckland District Conference of the National Party in May, the following motion was rejected: "The employers be permitted certain circumstances to employ labour at a cost award wages less PAYE."

Although the proposals worded differently, their effect is almost identical. It would be interesting to know if it similarly is advocated whether the advocates conference had before it a paper emanating from disaffected National Party members.

CTB
Papakura

Tait receives support

WHEN names of the new governor-general were discussed, that of Admiral Sir Gordon Tait, the Second Sea Lord, comes to mind.

Admiral Tait is a distinguished New Zealander of charm, wit, ability and progressive social ideas. His knowledge of the world outside New Zealand is second to none. He is in the position to tell his countrymen what they now know at this stage of political development.

In the search for orientations, it seems important that whoever the Queen's representative in New Zealand should be widely travelled and a diplomat with a grasp of international protocol.

Ned Hartley
Orewa

Contradictions appear in insurance trends

Melbourne Correspondent
ACCORDING to one of Australia's largest insurance brokers, Stanhouse Read Shaw, two apparently contradictory trends have appeared recently in Australian insurance.

While several insurers

continue to explore the currently depressed level of premium rates, and predict dire consequences if they remain low, other insurers have increased the strength of their representations in the market and expanded their activities.

Secondly, reinsurance has become more competitive and more freely available in Australia. This is partly because of the entry of large and financially strong over-

seas reinsurers, who have previously not operated in the Australian market as facultative reinsurers. The resulting lower rates in the reinsurance market have allowed direct underwriters to shave their rates even further.

The increased activity of foreign companies in what is a highly competitive market has not passed unchallenged. The Insurance Council of Australia has called upon the Federal Government to encourage the insurance of Australian risks in the home market.

The Australian Insurance Association also called on the Federal Government to limit the amount of insurance placed overseas.

Stenhouse says, that the powerful backing provided by these companies has given a sharp boost to the capacity of the insurance companies used as the vehicles for their interests.

As a result, the capacity of the Australian insurance market to accept risks continues to expand significantly, but even further premium reductions will occur as un-

derwriters vie for the limited business available.

Expansion of the Australian market's capacity has occurred in a number of ways.

Two large European in-

surers, Allianz-Insurance and Preservis-Insurance, have greatly increased their participation in the Australian market in recent months.

While several insurers

continue to explore the currently depressed level of premium rates, and predict dire consequences if they remain low, other insurers have increased the strength of their representations in the market and expanded their activities.

Secondly, reinsurance has become more competitive and more freely available in Australia. This is partly because of the entry of large and financially strong over-

seas at least 70 per cent Australian owned, aims to preserve the local insurance market for insurers registered under the Federal Insurance Act.

No foreign based company now registered under the Act would be affected, but it would tend to restrict further foreign control of the Australian market.

The association has declared its opposition to any increase in the solvency margins of insurance companies, on the grounds that any such proposal will favour the larger overseas insurers at the expense of its members.

Further, it seeks to make it illegal to do business with an insurer not authorised by Australian Insurance legislation, unless granted a specific exemption by the Australian Treasurer. The association, representing a number of companies which

by the Foreign Investment Review Board.

Among the more radical proposals presented by the association to the federal Government is the recommendation that premium rates be fixed by insurers themselves. Some years ago, the implementation of the Australian Trade Practices Act put an end to rate-fixing.

The Australian Insurance Association also called on the Federal Government to limit the amount of insurance placed overseas.

Unfortunately insurers found themselves faced with free market competition at a time of economic recession, and the resulting low rates have progressively squeezed underwriter profits ever since.

As the diminishing flow of premiums affords less and less scope for obtaining investment earnings, Australian insurers are seeking both relief from proportionately very heavy taxes and a measure of Government protection from foreign competition.

Bland Payne Fenwick Limited has become Marsh & McLennan Fenwick Limited.

We're overjoyed.

No business is immune to change and Insurance Brokers are no exception.

For us, the winds of change are blowing warm, not cool.

From the First of October, our entire Group will be known as Marsh & McLennan Fenwick Limited and the name of Bland Payne Fenwick will become a pleasant memory in many a company's filing system.

This change has come about as a result of Marsh & McLennan acquiring a greater shareholding in our Group.

So Marsh & McLennan Fenwick Limited we are.

If you are wondering how a solid, well respected New Zealand Broker suddenly felt about becoming part of the world's largest Broking Group, we beat you to it.

We see this new change as having exciting possibilities, and far from feeling overshadowed, we're overjoyed.

You see, the Marsh & McLennan Group handled premiums in excess of nine billion dollars last year. Their earnings exceed 600 million dollars. They have 180 offices in 62 countries. And they employ 19,000 people.

Clearly they know their business.

More still, it's going to mean that our Clients in New Zealand will have even greater access to the latest developments in international insurance and we'll show them how these will apply to their businesses in particular.

As part of this Group, our international buying power will be increased, as will our resources to plan on a broader scale.

In New Zealand, there'll be no changes to names on doors. Bob Fenwick is Managing Director. Kevin Heerdegen is responsible for the Auckland office, Jim Meikle for Wellington and Don Harrison looks after our Christchurch office.

Together with people you already know, they'll continue to offer the same kind of service to Clients that made Bland Payne Fenwick such a respected name in Insurance Broking.

Of our new name?

We believe it will look as good in practice as it does on paper:

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Marsh & McLennan Fenwick Limited
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WELLINGTON, 176 MELBOURNE STREET, P.O. BOX 10-100
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SCM/MA

Health Department smokes peace pipe with tobacco industry

By Belinda Gillespie

SMOKERS ambidextrous — light up with the right and stub out with the left.

The Government gets \$140 million a year in tobacco revenue. And last year it spent around \$105,000 discouraging smoking, most of it on TV ads, some on printed material and funding the Government advisory committee on smoking and health.

Other anomalies exist. The New Zealand Government provided financial aid for the building of a hospital in Apia, and helped finance the new Rotuman-Western Samoan Government cigarette factory.

Most bizarre of all is the "health tax" on cigarettes which goes into various community health projects, first imposed in the 1977 Budget — the more the community smokes, the more it gets to spend on preventive health care.

The Health Department appears to have come to a gentlemanly agreement with the tobacco industry. Certain restrictions are accepted, but these fall short of seriously disrupting an industry of considerable economic importance.

Stricter controls on the advertising and promotion of cigarettes were announced by the Minister of Health in February — but they stopped short of banning companies from attaching their names to sporting or cultural events.

The warning on cigarette packets was changed from "Smoking may damage your health", to "Smoking can endanger your health". And advertising is supposed to be directed to existing smokers, and intended to effect a change of brand, not to create more

smokers or increase their rate of consumption.

Such restrictions are not feared by the cigarette companies — Phillip Lovett, chief executive of Phillip Morris said they had no effect in other countries, and were unlikely to have any effect in New Zealand.

They fell far short of measures suggested by Geoffrey Holland, a Christchurch surgeon and chairman of the committee on smoking and health.

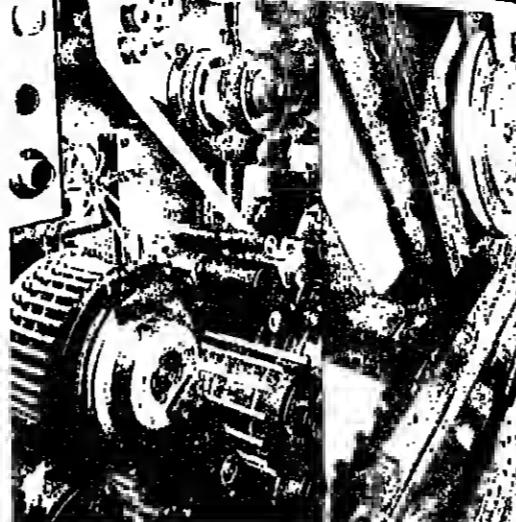
He called for legislation, not negotiation, and wanted the warning on cigarettes to say "Smoking is the cause of cancer, bronchitis and heart disease".

The council said in its report that the consequences of tobacco consumption are too well-known to need documentation — and that the consumption of tobacco imposes costs on society "well in excess of the price paid by the individual consumer".

It called, therefore, for those who take the risk to foot the bill, and pointed out that tobacco had become cheaper in relation to the price of other commodities.

It recommended a 25 per cent sales tax on tobacco (a 15 per cent tax was imposed in the June Budget soon after); that movements in a tobacco tax be excluded from other price movements in determining wages; and finally recommended making the advertising and other forms of promotion of tobacco non-tax deductible.

Although admitting the likelihood that the Government would want to use some of the extra revenue to pay for the consequences of tobacco consumption, the council did not favour tying it



Holmes has said the council hopes for "constructive alternatives to the suggestions we have put forward in order to underline the fruit logic of exploring the social consequences, while at the same time seeking the fruits of promotion of these particular commodities".

Having already issued a publication on "Smoking and Health" this year, the tobacco lobby does not dwell on the health consequences of smoking in its reply to the council.

But it challenges as unscientific that tobacco has links with cancer and heart disease, and the council's assumption that the health effects are too well known to need documentation.

"Tobacco is a convenient scapegoat for ailments ranging from 'cancer of the lung' and 'pulmonary heart disease' to 'suicide' and 'cancer of the rectum' — there is no scientific correlation but no 'scientific evidence' that smoking is a cause of disease".

A letter from Geoffrey Holland to the Planning Council, however, says that the generally accepted relationship between smoking and a number of diseases is for

Cigarette giants grow: tobacco growers choke

By Belinda Gillespie

THREE of the "big seven" tobacco companies operate in New Zealand — Rothmans, Phillip Morris, and British American Tobacco, which owns W D and H O Wills.

The three account for virtually all the tobacco products sold in New Zealand each year, at an estimated total retail value of \$260 million.

Shared in the highly competitive cigarette market are a close secret, it is believed that Auckland-based Rothmans has about 70 per cent, Wellington's Phillip Morris 9 per cent, and Wills with its head office in Auckland and factory at Petone, 22 per cent.

Rothmans Industries Ltd — the single public company of the three — has done well over the last three years, with 1978 a particularly good year. With a 26.5 per cent boost in unadulterated tax-paid profit to \$13,852,000. In the year to June 30, the company made a one-for-ten bonus share issue and increased its dividend to 9.75c.

Rothmans has other interests besides tobacco products. Motueka tobacco-growers produce an annual crop of around 3.5 million kg, with a 1978 value of \$13.5 million. There are 257 Motueka families who rely directly on tobacco growing for their income, to whom can be added suppliers of supporting goods and services.

The tobacco companies have a vested interest in minimising the health risks of smoking, says Holland, World Health Organisation and the health subcommittee have accepted that smoking is the major preventable cause of disease and mortality in developed countries.

Although there is a bit of New Zealand statistics to quantify the costs of smoking in answer to the manufacturers' challenge, Holland refers to British statistics.

The number of workers employed in the tobacco industry in Britain is 36,000, whereas every year, the number of deaths specifically to smoking and a number of diseases is at 50,000.

Thirteen new brands were introduced by the tobacco industry in 1977-78 and quickly accounted for nearly 25 per cent of the total market.

Kenneth Butland, chairman of the Rothmans board of directors, pointed out that the high value of capital equipment used by the tobacco industry made it acutely

sensitive to sales fluctuations. "In times of intense competition, maintenance of volume sales in new as well as existing segments of the market is a first consideration," he said.

In 1978, New Zealanders' consumption of cigarettes dropped slightly, from 934 million in 1977, to 832 million last year.

But overall in the last decade, cigarette smoking increased steadily, from 464 million in 1968.

Despite their success in selling more cigarettes, the three manufacturers have not benefited New Zealand's tobacco growing industry, which has remained static in terms of production, and declined in numbers of growers, from 923 in 1969, to 257 at present.

Tobacco manufacturers claim that there is not enough recognition of the important role their product plays in New Zealand's economy.

It provides 14,000 retailers of tobacco products with a gross annual income of \$25 million in sales margins.

Independent, "corner-store" type outlets count on tobacco for an average 17.8 per cent of their total store turnover.

Eighty wholesalers get \$1 million gross per year in sales margins on tobacco products.

Motueka tobacco-growers have refused to accept it, even at a reduced price.

The Tobacco Board has been unable to find either domestic or export markets for the over-quota leaf.

New Zealand manufacturers have refused to accept it, even at a reduced price.

The excess leaf is to be taken into account in determining the quota grown next season, which will be reduced to 2.4 million kg from the 2.9 kg

million kg in 1978.

But from a peak in 1964, the percentage of domestic leaf used by the industry has fallen, from 50.6 per cent in 1969, to 41.6 per cent in 1978, though it

rose again to 44.7 per cent for

the year to June 30, 1979. But more tobacco is being imported — 4.3 million kg in 1978, nearly 1 million kg more than in 1969.

The industry is in such a state that Lence Adams-Schneider suggested to growers that they might be better off turning to kiwifruit.

Two good crops in successive years have resulted in over-production to the tune of nearly half a million kg more than the tobacco manufacturers want.

The Tobacco Board has been unable to find either domestic or export markets for the over-quota leaf.

On the plus side, costs, especially fuel, are up in other countries, and New Zealand growers have scope to cut their own costs, by using indigenous fuels for example, and thus becoming more competitive.

But to increase shares of the available quota of tobacco leaf and enable units to operate more economically, Adams-Schneider suggested that some growers should move out of tobacco altogether.

Adams-Schneider found "some pluses and some minuses" in viewing the prospects of tobacco growers in New Zealand.

The demand for tobacco is down, and could fall further if the health hazards are heeded.

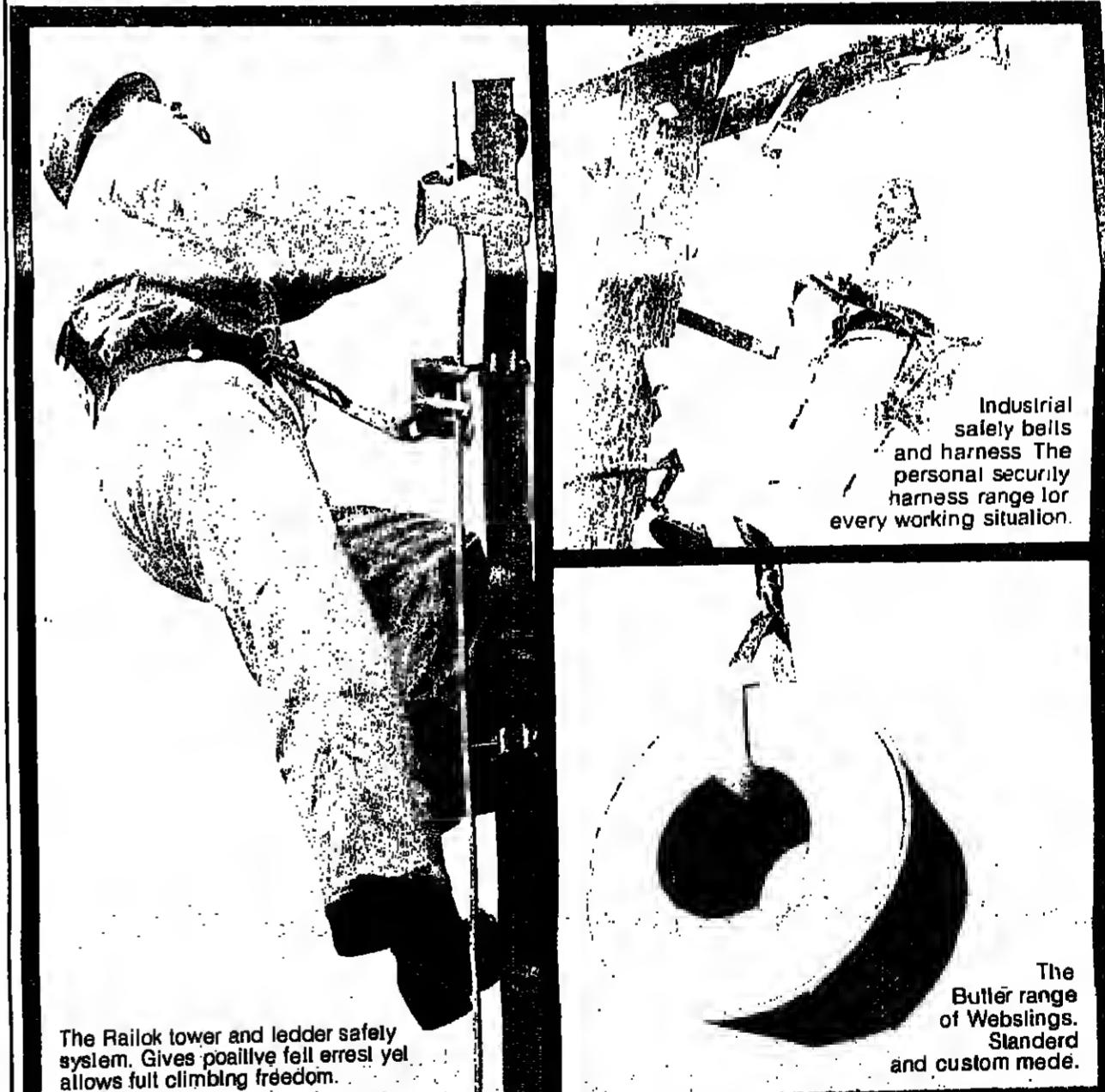
To balance recent trade concessions, which New Zealand had obtained from the United States, the Minister pointed out, the country had had to reduce tariffs on higher priced tobacco imported from the United States.

As he put it, the move would put more pressure on growers to be efficient.

On the plus side, costs, especially fuel, are up in other countries, and New Zealand growers have scope to cut their own costs, by using indigenous fuels for example, and thus becoming more competitive.

But to increase shares of the available quota of tobacco leaf and enable units to operate more economically, Adams-Schneider suggested that some growers should move out of tobacco altogether.

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New Zealand Chambers of Commerce Economic Education Programme

TABLE 1:
THE GOVERNMENT AS A FINANCIAL INSTITUTION
Advances and Share Purchases, \$ million

March years:	Corporation:				Total
	Development Finance	Housing	Rural Banking and Finance		
1973	.1	85.0	1	85.1	85.1
1974	23.6	63.0	1	86.6	86.6
1975	6.0	130.0	60.5	196.5	196.5
1976	15.1	200.0	93.0	308.1	308.1
1977	.3	118.5	90.0	208.8	208.8
1978	—	134.0	150.0	284.0	284.0
1979	—	185.2	182.7	367.9	367.9
1980 (est)	—	147.5	208.0	355.5	355.5

1. Prior to 1975, Advances to the Housing Corporation and Rural Banking and Finance were made to State Advances Corporation.

TABLE 2:
HOUSING CORPORATION (\$ Million)

	March 1979	March 1978
INCOME		
Interest earned	88.4	66.4
Interest recovered from Public Account	26.1	23.8
	114.5	90.2
EXPENDITURE		
Management interest payable	6.0	4.9
	94.4	76.2
	110.4	81.1
SURPLUS (before tax)	14.1	9.1

Government accounts: state

Economics Correspondent

THE heavy hand of Government is all pervasive in the activities of the New Zealand economy. Not only does the Government provide goods and services for the citizens but it also runs three major lending institutions.

The Development Finance Corporation (DFC), the Housing Corporation, and the Rural Banking and Finance Corporation (RBFC) are all 100 per cent owned by the Government.

These three establishments have developed to meet the changing objectives of Government economic policy. The DFC, Housing Corporation and RBFC annual reports show Government objectives have changed substantially since the early 1970s.

No longer is the Government's main interest in generating new housing stock. Increased funding to the RBFC reflects the Government's view that New Zealand's future is dependent

on increasing farm export production. And the DFC is gradually making a niche for itself selling the view that firms should develop manufactured exports using local resources.

Table 1 illustrates the changing pattern of Government advances and share purchases to its three lending institutions.

The Development Finance Corporation (DFC), the Housing Corporation, and the Rural Banking and Finance Corporation (RBFC) are all 100 per cent owned by the Government.

In the early 1970s, the DFC was reconstituted as a wholly Government-owned institution. Until the corporation became totally self-funding in 1977-78, the Government provided advances for industrial development and made share purchases totalling \$28 million.

According to the 1979 Budget, the Government expects to advance \$208 million to the RBFC this year.

But the information contained in the Government's budget does not tell the whole story about the activities of the DFC, Housing Corporation and RBFC. The Budgets show only that amount of money spent

each year from current re-

venues to finance Government's lending activities.

For information about the extent of lending advances by the Government's financial institutions it is necessary to go to the reports tabled in Parliament.

It is already providing substantial credit to farmers. In 1979, the number of farmers who were mortgagors with the Rural Bank numbered 31,878.

This is a considerable number in light of the fact that there are only about 42,000 farm holdings in New Zealand of over 50 hectares.

Table 3 provides a summary of the financial results of the RBFC in March year 1979. The corporation made a profit of \$3 million before tax.

While the DFC annual report tells us a lot about the goals and objectives of the corporation, it would be difficult to assess whether the company follows these objectives efficiently.

Nowhere in its report can we discover the costs of administering the DFC (other than management costs, mainly covering director's fees), the salaries paid to its employees, or the number of employees.

But it is the concessional interest rates which continue to help many people with their first home. The total concessions are \$1 million in the past year compared with \$4.6 million in 1977-78.

The corporation could only an estimate of the number of houses it completed last in March 1979 when its annual report in August 1979 estimated 1300 houses built. The houses were compared with 1900 houses the year before.

Overall, the corporation made a profit in March 1979 of \$14.1 million (see Table 2). This was higher than achieved by either the DFC or the RBFC.

The Housing Corporation has more loans outstanding than the other two lending institutions and some interest each year, as well as recovering a larger amount of interest from the Housing Corporation for their mortgages.

RBFC approved a total of 13,775 new mortgages in 1978 compared with 11,000 approvals valued at \$93 million in the year before.

And according to its latest Bank's annual report, there is still an unsatisfied debt among farmers for rural credit. The bank is concerned that the private sector has failed to meet the need in the farming sector.

But why won't the private sector provide adequate support to the rural sector?

Perhaps the future for the farming sector does not hold as bright as the Government would like. Also, the rate of return to the farming sector may not be as good as can be gained from investing in other sectors of the economy.

A majority of farmers are paying 8.5 per cent of their interest on their mortgages with RBFC. Considered of insurance companies, getting 12 per cent on mortgages for homes and solicitors are a major part of the private sector. It is not surprising that the private sector is willing to provide

at interest rates of 0.5 per cent or below to farmers.

While farmland provides excellent security, the future prospects of farming are not that encouraging.

If the Government wishes to stimulate growth in farming exports, it may have to provide the credit base itself.

DFC's main role is to promote growth to the maximum extent of New Zealand's resources.

The corporation encourages investment in new projects which have a beneficial foreign exchange effect and provide additional employment opportunities.

By channelling more investment funds through the DFC, the Government may achieve an increase in manufactured export receipts.

At the same time, the private sector may be encouraged to provide more new permanent job opportunities.

After all, there must be many builders around without work as a result of the scaling down of the activities of the Housing Corporation.

Why not involve them in the export drive before they all migrate to Australia?

steers funds from homes into farm exports

Investors through the procedures required by Government departments and agencies for investment.

Perhaps, at the same time the Government should offer the carrot of cheaper investment finance provided through the DFC. It has already made clear its intention to pursue economic growth objectives by channelling funds from housing to export-earning farming.

By channelling more investment funds through the DFC, the Government may achieve an increase in manufactured export receipts.

At the same time, the private sector may be encouraged to provide more new permanent job opportunities.

After all, there must be many builders around without work as a result of the scaling down of the activities of the Housing Corporation.

With this objective in mind, the Government established an Investment Unit within the Trade and Industry Department responsible for guiding

TABLE 3:
RURAL BANKING AND FINANCE CORPORATION RESULTS
(\$ Million)

	March 1979
INCOME	
Interest earned	88.4
Interest recovered from Public Account	26.1
	114.5
EXPENDITURE	
Management interest payable	6.0
	94.4
	110.4
SURPLUS (before tax)	14.1

TABLE 4:
DEVELOPMENT FINANCE CORPORATION RESULTS
(\$ Million)

	9 Months Ended March 31, 1979	Year Ended June 30, 1978
TOTAL INCOME	20.4	21.6
EXPENDITURE		
Operating expenses	1.8	1.8
Cost of funds	15.7	16.3
Amount Written Off	.7	.7
SURPLUS (before tax)	18.2	18.8



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Reduce heat loss, noise transfer — even tax.

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Panels 65 mm thick provide an R value = 1.912 m² °C/W min.

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Bullion boom boost to 'Boks

By Beroard Simon

IT'S difficult for any South African to forget about gold. Daily bullion prices make front-page news. The speeches of cabinet ministers, civil servants and businessmen are peppered with references to the yellow metal.

When the gold price spirals

upward as fast as it has in recent months, hardly a business lunch or cocktail party passes without a discussion on how long the bullion conditions, South Africa's Standard Bank pointed the mining industry, whose kingpin is gold, as "the prime mover toward the West's output, gold can mean the difference between a sound economy and a shaky one.

In a recent survey of discussion on how long the bullion conditions, South Africa's Standard Bank pointed the mining industry, whose kingpin is gold, as "the prime mover toward the West's output, gold can

mean the difference between a sound economy and a shaky one.

Thanks largely to soaring gold earnings, the Government has been able to afford stimulatory measures which are pulling the economy from a real growth rate close to zero in 1977 to 3 per cent this year and hopefully more than 4 per cent in 1980.

At the turn of the century, soon after gold was discovered where the city of Johannesburg now stands, output was a mere 10 tonnes a year.

Annual export earnings totalled about R3 million. By 1978 sales had topped R800 million, over a third of the country's total export receipts. That was at an average price of \$193 an ounce.

Hopes are high that this year's production of around 720 tonnes will sell at an average price of at least \$205 an ounce, bringing South Africa a R5250 million foreign exchange bonanza, an increase of nearly 40 per cent on 1978.

The gold comes from more than 30 large mines scattered in a 480 kilometre arc in the eastern and western Transvaal and northern Orange Free State provinces. These mines belong to seven mining finance houses, of which the largest is Anglo American Corp. Its mines account for almost 40 per cent of South Africa's annual gold output.

Anglo American controls the world's most productive gold mine, Vaal Reefs, which in the first six months of this year

milled over 4 million tonnes of ore, from which 34,671 kilogrammes of gold was recovered, about one-tenth of the country's total gold production.

The soaring gold price has brought a steep rise in the mines' revenues — up from R2683 million in 1977 to R3674 million last year, a jump of 37 per cent. This year the rate of increase will be even higher. In January-June alone, working revenues totalled R2340 million.

But the mines' costs have also risen steeply. In the year to June 1978 they leapt by 7.2 per cent and in the following year by 22 per cent. The rate has since slowed a little — to 14.4 per cent and 6.8 per cent in 1977-78 and 1978-79 respectively.

The major reason for fast-rising costs has been hefty wage hikes for mine workers, especially blacks. Indeed, the gold mining industry is generally acknowledged as a leader in efforts to close the yawning gap between the wages of white and black workers in South Africa.

The ratio of skilled (mainly white) to unskilled (mainly black) wages on the mines has narrowed from 18 to 1 in the early 1970s to 7 to 1. Black underground miners' wages now average about R145 a month plus food, housing, medical care and recreational facilities estimated to be worth around R50 a month. "The rise in the gold price provided the means for the increase in black wages," says the Chamber of Mines, the coordinating body of South Africa's mining industry.

In the mid-1970s, the mines' costs were going up almost as fast as their income. But the sharp spurt in the gold price over the past two years has restored a healthy growth in profits. Gold mine profits totalled R134 million in the first six months of this year, less than 42 per cent up on January-June 1978.

Fears have often been

expressed that South Africa

is starting out of gold

at the end of the century.

However, the

mining industry's

investment continues to

increase. Capital spend-

ing by existing producers

has increased by more than 40 per cent

in the past year to

R1022 million, the

first half of 1978. More

than three new mines are

expected to come on

stream this year.

With the gold price shooting

past \$400 an ounce levels in the

second half of this year could

be R300 million higher than the

Finance Minister estimated in

his March Budget.

The Budget was based on an

average gold price of

around \$210 an ounce. With

that figure proving to be conservative, the present

payments in the form of food subsidies, a cut in local taxes and even more Government spending.

Nonetheless, policies

are being careful not to

make the mistake of the

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The surge in gold

prices has also brought

generous hikes in their

allowances and wage

problems.

The mining industry's

malaise was the

Brutton Woods Agreement

of 1944 when the major

trading countries agreed to

maintain a

fixed rate of exchange between

their currencies and gold, the

price of which was effectively

pegged at US\$35 per ounce by a

United States Government

guarantee to exchange gold for

dollars at that rate.

Australian gold producers

were obliged to sell their gold

at Australia's Reserve Bank at

the official price. They were

permitted to buy back the

Reserve Bank's surplus gold —

at the \$20 per ounce rate.

Between 1855 and 1974

Western Australian production

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